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TRADE AND DEVELOPMENT BOARD
COMMISSION ON ENTERPRISE, BUSINESS FACILITATION AND DEVELOPMENT
Expert Meeting on Improving Competitiveness of SMEs in Developing Countries: The Role of Finance, Including E-Finance, to Enhance Enterprise Development
Geneva, 22-24 October 2001
Item 2 of the provisional agenda

PROVISIONAL AGENDA AND ANNOTATIONS

I. PROVISIONAL AGENDA

1. Election of officers

2. Adoption of the agenda and organization of work

3. Improving competitiveness of SMEs in developing countries: the role of finance, including e-finance, to enhance enterprise development

4. Adoption of the outcome of the Expert Meeting

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II. ANNOTATIONS TO THE PROVISIONAL AGENDA

Item 1 – Election of officers

1. In accordance with established practice, it is suggested that the Expert Meeting elect a Chairperson and a Vice-Chairperson-cum-Rapporteur.

Item 2 – Adoption of the agenda and organization of work

2. Concerning the organization of the work of the session, the Expert Meeting has three working days available. It is therefore suggested that the first plenary meeting, on 22 October, be devoted to procedural matters (items 1 and 2) and the introduction of item 3. Subsequent meetings will be devoted to a detailed discussion of item 3. The last plenary meeting, on the afternoon of 24 October, will be devoted to the adoption of the outcome item 4.

3. The secretariat will prepare a tentative schedule indicating the issues to be dealt with by the meeting, which will be available on the first day.

Documentation

Item 3 – Improving competitiveness of SMEs in developing countries: the role of finance, including e-finance, to enhance enterprise development

4. The UNCTAD X Plan of Action recognized that the survival and the growth of SMEs require the adoption of policies and programmes that improve their competitiveness. The main problem hindering the growth of SMEs is a lack of access to capital. The difficulties that face SMEs in obtaining long-term financing are well known. The fifth session of the Commission on Enterprise, Business Facilitation and Development, held in Geneva from 22 to 26 January 2001, recommended that UNCTAD "undertake further research and analysis on certain topics, such as financing SMEs,"[1] and proposed that an Expert Meeting be held on improving the competitiveness of SMEs in developing countries through adequate financing.

5. Despite their large numbers and importance in job creation, SMEs have traditionally had difficulty in obtaining formal credit or equity. The main reasons for this phenomenon have been recognized as SMEs' insufficient assets and low capitalization, the high risks caused by their vulnerability to market fluctuations, their lack of accounting records and of business plans, and the relatively high administrative and transaction costs of lending or investing small amounts. As a result, commercial banks are generally biased towards large corporate borrowers. Without access to capital, enterprises cannot expand or upgrade technology. The Expert Meeting will identify innovative

[1] TD/B/COM.3/L.15.

financial mechanisms which can overcome these problems and design an action plan to disseminate their use with the help of the international community.

6. Moreover, the radical changes imposed by the so-called New Economy have made the creation of an enterprise-friendly regulatory environment and transparent economic conditions an urgent task. The opportunities for doing business in virtual proximity and at a fraction of current transaction costs open new horizons for SMEs. Consequently, it is UNCTAD's aim to explore at the Expert Meeting the new opportunities for SMEs from developing and transition economies to make and receive on-line payments, enter Internet-based commercial risk databases and obtain access to e-finance on more competitive terms.

Item 4 – Adoption of the outcome of the Expert Meeting

7. The Expert Meeting will adopt the outcome of its deliberations, and the Chairperson may wish to produce a Chairperson's summary. The final report will be prepared under the authority of the Chairperson after the conclusion of the session for submission to the Commission on Enterprise, Business Facilitation and Development at its sixth session.

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Expert Meeting on Improving the Competitiveness of SMEs
in Developing Countries: Role of Finance, including
E-Finance, to Enhance Enterprise Development
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Finance and e-finance for SMEs as a means to enhance their operations and competitiveness

Issues paper by the UNCTAD secretariat

Executive summary

Promoting SME development is a major challenge for both Governments and international agencies. Traditional approaches have not always proven effective, particularly in facilitating access to finance. Despite their dominant numbers and importance in job creation, SMEs have faced great difficulty in obtaining formal credit and equity. Commercial banks and investors have been reluctant to service SMEs for a number of well-known reasons, including high risks and transaction costs. The need for new approaches is paramount. There have been a number of advances in using innovative mechanisms that increase the profitability of lending to SMEs. Internet may offer the necessary tools to facilitate the development of such approaches. Internet-mediated electronic financial services, known as e-finance, can bring about drastic improvements in the costs and speed of delivery of those services. Hence there are expectations that SMEs might improve their access to finance through e-finance. This issues paper focuses on SMEs in the formal sector in developing countries and their access to finance and e-finance and what can be done to improve that access, including the use of the latest innovative mechanisms, as well as information technology.

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I. FINANCING SMEs

Introduction

1. The economic creativity of a nation depends on its enterprises and the ease with which they can start and finance their businesses, as well as on their access to technology. A good general business climate is a combination of many factors generally known as the "enabling environment". It is a broad concept encompassing stable macroeconomic policies, a favorable legal, commercial and regulatory framework, and physical, social and institutional infrastructure. Particularly important for private sector development is legislation that provides for the creation of business entities, enforcement of contracts, private ownership and transfer of property, assessment and payment of fair taxes and currency convertibility. This issues paper focuses on formal-sector small and medium-size enterprises (SMEs) in developing countries and on improving their access to finance through innovative mechanisms, including e-finance and information technology.

2. Finance has been identified in many surveys as among the most important problems facing SMEs in both developing and developed countries. Access to finance is a crucial factor that determines the capability of SMEs to undertake productive investments to expand their business and to employ the latest technologies, thus ensuring the competitiveness of the sector and of the nation as a whole. Thus, poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment.

1. Financing SMEs

3. Despite their dominant numbers and importance in job creation, SMEs traditionally have faced difficulty in obtaining formal credit or equity. Traditional commercial banks and investors have been reluctant to service SMEs for a number of well-known reasons, which have been explored in numerous expert meetings[1]. Among them are:

- SMEs are regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates;
- Information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals;
- High administrative/transaction costs of lending or investing small amounts do not make SME financing a profitable business.

4. As a result, commercial banks are generally biased toward large corporate borrowers, who provide better business plans, more reliable financial information, better chances of success and higher profitability for the banks. When banks do lend to SMEs, they tend to charge them a commission for assuming risk and apply tougher screening measures, which drives up costs on all sides.

5. Many Governments and international financial institutions have tried to address the problems of high transaction costs and risks by creating subsidized credit programmes and/or providing loan guarantees. Such projects have often fostered a culture of non-repayment or failed to reach the target group or achieve financial self-sustainability.

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[1] See for example "Issues concerning SME's access to finance" in Development Strategies and Support Services for SMEs: Proceedings of Four Intergovernmental Expert Meetings, UNCTAD 2000.
"The SME-financing Gap and New Financial Products for SME's in Developing Countries and Eastern Europe" Committee of Donor Agencies for Small Enterprise Development, Vienna, October 2000.

6. A more efficient approach to ensure well-functioning and self-sustainable mechanisms for SME financing is to focus on market forces. It is a prerequisite that financial institutions find SME lending to be more profitable, which would encourage them to construct lending programmes targeted for SMEs. The following section explores some of the techniques and mechanisms that banks and other organizations are using in developed countries to increase the profitability of lending to SMEs. Later on we explore what Governments and international organizations can do to encourage the use of such mechanisms in developing countries.[2]

2. Initiatives undertaken by banks in the United States and European Union

7. To compete effectively in the SME financing sector, banks need to provide financial services that meet the specialized needs of SMEs while coping with high risks and costs associated with servicing SME customers. An increasing number of banks have concluded that a separate strategy focusing on specialized needs of SMEs can result in considerable improvement in the relationship with this sector, as well as in an increase in profits. Innovative approaches undertaken by banks to serve the SME clients include:

- Reducing high risks of SMEs and information asymmetry by using special programmes for start-ups, credit scoring, and external information providers, e.g. appraisal services and rating services;
- Reducing the costs of lending by streamlining organizations, applying the latest information technology, direct mail services, etc;
- Improving financial services for SMEs through training programmes for bank staff;
- Segmenting of SME customers.

2.1 Initiatives to deal with high-risk customers

8. The **Bank of Ireland** has set up an Enterprise Support Unit (ESU) that has provided 10 year funds and hands-on support to start-up SMEs. To date the ESU has lent 50 million euros to over 550 companies. The ESU operates outside conventional criteria: personal guarantees or asset-backed securities are not taken. The ESU lends to high-risk business at normal rates and also participates in several seed capital funds providing tailored equity to start-up companies. It gives access to Business Skills Workshops, Enterprise Forums and specialist SME advisers throughout Ireland. These services are provided at subsidized rates in cooperation with First-Step, a non-profit organization providing business development services. The rationale behind the apparent subsidy provided by a private bank to young upcoming SMEs is to secure a strong customer base in the future.

2.2 Initiatives to reduce information asymmetry

9. Part of the reluctance of banks to lend to SMEs is the banks' inability to evaluate risk because of the lack of reliable financial information. In well-developed and stable financial markets, creditors and investors usually demand and receive transparent, reliable and comparable financial information. The better the information, the higher investor confidence and the lower the cost of capital. Such financial information is provided in financial statements, which follow national or even international accounting standards. Banks and regulatory authorities can even demand more information than what is publicly available or required. In addition, financial analysts, rating agencies or business intelligence providers generate information which is available to creditors and investors.

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[2] A fuller discussion of innovative mechanisms is contained in the background paper, "Recent Innovations in SME Finance".

10. However, even in highly developed economies, such as the European Union, SMEs are not required to report on their financial performance in a standardized manner if they do not reach a significant threshold in total assets, turnover and/or number of employees. This means that the many SMEs in developed and developing countries do not produce comparable financial information which could be used by creditors or investors. Instead, these users are left to specify for themselves what financial information they require, thus placing a costly burden on SMEs to comply with different reporting formats. Even more important, the majority of SMEs do not generate the basic financial information the entrepreneurs need for efficient management.

11. After reviewing the many hurdles SMEs face in generating reliable financial information, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) identified several desired characteristics that should be in an accounting system for SMEs. These include user-friendliness, flexibility to accommodate growth, standardized formats and adherence to generally accepted accounting practices. Such a system could reduce information asymmetry faced by creditors and investors, as well as provide in useful management information to entrepreneurs. The innovative mechanisms used by financial institutions for credit appraisal and rating such as credit scoring presuppose the existence of such reliable financial information, so the basic precondition for using such mechanisms to reduce both transactions costs and risks is reliable accounting information.

12. Leading banks in SME lending such as **Wells Fargo, Citibank** and **Bank of America** have developed credit scoring systems to improve risk management in lending to SMEs. Credit scoring is a statistically based means to assign a single quantitative measure, or score, to a potential borrower representing an estimate of the borrowers's future loan performance. A credit scoring system would typically identify characteristics of borrowers that best predict loan repayment and assign numerical weights to these characteristics to obtain a credit score. Credit scoring has proved to be an efficient and cost-effective way to evaluate the risk of smaller borrowers.

13. For the upper segment of SMEs, several business appraisal and rating services have been launched in Europe. The aim of these services is to provide risk assessments for banks in cases where highly specialized skills are needed, such as high technology companies. Examples include **Technet** in Austria where banks, investment companies and business angels can refer to a network of experts in technology appraisals. **ENTAS**, set up by banks and specialized expert organizations in Germany, the Netherlands and the United Kingdom, aims to develop an EU-wide network of appraisal experts.

2.3 Initiatives to reduce the cost of lending by improving the efficiency of bank operations

14. Banks have for a long time been at the forefront in successfully applying the latest information technologies (IT) to improve the efficiency of operations in a wide variety of banking products. This topic will be discussed in greater detail in part II. An area in which the least progress has been made by banks is the standardization of financial products - although some developments have been observed in recent years. According to the American Advisory Board Company, banks that effectively exploit the efficiency gains from standardization can double their profitability compared to competitors who do not adopt these strategies.

15. Standardized products are being marketed via direct mail campaigns. **Wells Fargo**, the leading US bank focused on SME financing, pioneered the use of direct mail (direct marketing) to offer credit lines to small businesses across the United States. Direct mail is a proactive approach by banks to approach potential SMEs with credit proposals. Thus, SME customers are approached in much the same way as private households.

2.4 Improving financial services for SMEs

16. **Swedbank** and **NatWest** recognized that the competence and experience of its staff was crucial in competing effectively for SME business, as well as also for managing the credit risk inherent in SME banking. In response, both banks launched training programmes for its SME staff with two objectives: firstly, to boost the bank's competence in servicing particular needs of its SME customers; secondly, to create a sales organization which was both proactive in its approach and sensitive to SME customer needs.

17. By segmenting SME customers, banks can develop standardized services that are especially suited for particular sectors, e.g. reserving personalized services for the most profitable customers while encouraging use of automated services for less profitable customers. **CERA Bank** uses a segmentation method called "splitting", which is based on the size and nature of the customer, whereas **Groupe Banques Populaires** segments according to the profitability of the customers.

3. Complements to finance

3.1 Insurance

18. SME entrepreneurs tend to have little or no physical security to offer as collateral. When the guarantee provided by the entrepreneur is insufficient, guarantees, either total or partial, securing the bank's ability to recover loanable funds in the case of default may be available from public and/or private bodies.

19. There are a number of types of insurance available to SMEs that can reduce the lender's risk and potentially improve SME access to credit. Some of the more typical schemes include loan guarantee schemes, mutual guarantee funds and export credit insurance.

20. **Loan guarantee schemes** are set up by Governments and international financial institutions such as the International Finance Corporation with the purpose of covering some portion of the losses incurred if borrowers default on loans, thus reducing the perceived risk of SMEs to the lending institutions. The objectives of these schemes are: helping small entrepreneurs with good projects but little collateral to obtain loans; encouraging banks to overcome their reluctance to deal with SMEs; and providing banks with the opportunity to learn more about how to deal with SMEs' loan-portfolios and how to lend profitably to SMEs.

21. The loan guarantee schemes provide a guarantee to the lending institution, against a fee (which varies between 1 per cent and 4 per cent of the loan amount) paid by the bank or passed on to the borrower. Most schemes offer guarantees of between 60 and 80 per cent of the loan amount. One of the major arguments in favour of guarantee schemes is that these funds can reach important levels of leverage (five times or much more in developed countries). This means that for each US$ 1 million in the fund, a volume of US$ 5 million or more in credits to SMEs can be guaranteed.

22. Credit guarantee schemes are quite widespread. A study financed by the United Kingdom's Overseas Development Administration in 1997 identified around 70 credit guarantee schemes that are operating in all parts of the world - some of them in the least developed countries[1].

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[1] Levitsky Jacob, "Credit Guarantee Schemes for SMEs - an international review", Small Enterprise Development Journal, Vol. 8, No 2, June 1997. Actually only 61 of the schemes were studied in detail. Of these 23 were in OECD countries, 6 in CIS, 15 in Latin America, 11 in Asia and 6 in Africa.

23. There is no international consensus that loan guarantee schemes are an effective way of widening SMEs' access to formal bank loans. They have been criticised for a number of weaknesses such as: moral hazard problems; high administrative costs due to inadequate procedures and inexperienced/reluctant staff dealing with SME loan portfolios; delays in paying claims, which undermines the banks' trust in guarantors; and low demand by SME borrowers, as well as banks' limited outreach.

24. Some of the problems identified above could be resolved if bank staff were properly trained and motivated to deal with SMEs. The administrative costs of credit appraisal and monitoring SMEs could also be reduced by outsourcing these activities to business development service (BDS) providers. Lastly, moral hazard could be reduced by giving partial loan guarantees versus full loan guarantees.

25. In France, local SMEs give guarantees to each other. There are 115 active Mutual Guarantee Funds, backed by 300,000 trading and industrial enterprises. Founded by SMEs on a voluntary basis, they help satisfy the credit needs of fellow enterprises. The purpose of the Mutual Guarantee Societies is to safeguard the professional and personal activities of their shareholders, rather than to generate profits. They make contact with SMEs who require loans by means of their local reputation, in cooperation with a regional bank. The bank, however, does not play an exclusive role as intermediary. A Mutual Guarantee Society consults with the banks when checking guarantee requests but plays the leading part in the decision process. The assessment criteria used consist of judging the entrepreneur as an individual, the business proposal, the sector and the financial criteria.

26. In the Netherlands also, additional loan guarantee funds have been raised through private initiatives. They aim at specific target groups which banks consider particularly risky, such as start-ups and businesses founded by women or members of ethnic minorities. **Mama Cash** gives additional guarantees to persuade bankers to offer loans to female start-ups without enough collateral. The loan guarantees of Mama Cash are given "subject to a number of criteria being satisfied, including submission of a full business plan and the prospect that the entrepreneur will be able to support herself from the business after one year."[4]

27. **Export credit insurance** is a guarantee against payment defaults by foreign buyers, cancellation of specific orders by foreign clients and defaults on debt repayment by the exporter to the lending institution providing finance facilities. Export credit insurance schemes are especially beneficial for SMEs seeking to internationalize their activities. There are a number of different types of structures that can accommodate credit insurance schemes. In most cases, the most efficient solution is to form a specialized credit insurance company. Whether it should be a private or a public institution depends exclusively on the emergence of private initiatives to enter such a market. Often the most efficient approach has been to combine private and a public efforts to supply export credit insurance. This type of insurance can play a distinct role in securing export credit, but at present this facility is not being widely used for SMEs.

28. **Israel Foreign Trade Risk Insurance Corporation Ltd**. provides insurance against export-related risk. Exporters buy coverage for goods and services for up to 90 per cent of their value against commercial risks, such as bankruptcy and protracted defaults, as well as political risks, which include war, political upheaval, currency restrictions, confiscation, and other discriminatory actions in the buyers' countries. In 1999, the insured exports amounted to US$3.65 billion and the number of insured countries reached 96. Such insurance is particularly beneficial to SMEs as it provides leverage for financing through the guarantee of their export revenues.

3.2 Leasing

29. There are two types of leasing. One form of leasing is financial leasing, in which the leased equipment is treated as if it were the property of the customer by both sides of the contract. The customer is responsible for maintenance of the property throughout the contract period. The other form is operational leasing, in

[4] The special problems faced by women entrepreneurs are treated in the background paper, "Recent Innovations in SME Finance".

which the responsibility for registration and maintenance of the equipment remains with the financing company. The customer only makes monthly payments to the company, as agreed upon in the lease contract.

30. In operational leasing, the rents collected from the customer during a contract period do not cover the full cost of the equipment, since it is to be returned to the financing company at the end of the contract period. This type of leasing is particularly popular in the high-tech industry, which is characterized by rapid rates of technological innovation and the continuous need for equipment upgrading.

31. Compared to traditional loans, credit risk is higher in leasing from the financing company's point of view. The outstanding debt balance cannot be called in regardless of the condition of equipment. The value of equipment depends on factors beyond the control of the financing company, such as the timing of a new model being introduced to the market, the taxation rate, overall economic conditions, and so on.

32. However, leasing is a convenient option to help SMEs meet their needs for business equipment in the sense that:

- Collateral is not required for the contract and the customer can finance up to 100 per cent of the equipment value;
- A contract can be written with some flexibility according to the customer's cash flows;
- Tax policies tend to provide business firms with tax shelters by allowing for the depreciation of equipment value;
- The financing company is likely to have good relationship with the equipment supplier due to a large volume of transactions, and this can help accommodate the customer's needs;
- The economies of scale enjoyed by the financing company may be passed on to the customer in terms of reducing the costs of equipment usage;
- Not only equipment but also expertise in the equipment will be offered to the customer; and
- Approval time is short.

On the other hand, a number of drawbacks exist, and leasing may not be suitable for all SMEs. For example:

- Missing a lease payment can lead to the re-possession of equipment and in turn to the termination of the SME's operations;
- Tax advantages granted on lease payments may not be as large as those granted on interest payments if SMEs purchase equipment on a loan;
- Availability of equipment that can be leased may be limited.

33. **Finarca** began operations in **Nicaragua** in 1997 specializing in the financing of equipment and machinery. It has established funding relationships with a number of international organizations and investors. At the local level it has established alliances with leasing and vendor companies. Finarca has a special leasing programme for SMEs, especially for transportation and delivery vehicles, machinery for dairy products, bakeries and leather products and copying and printing machines. Typical amounts range from US$ 10,000 to US$ 300,000, and the duration of leases is from 24 to 60 months. Some of the benefits of financial leasing that Finarca mentions are tax benefits, accounting benefits, flexible terms, no collateral requirement and up to 100 per cent financing. Experience indicates that sponsors need to be committed, local regulatory and government agencies should be involved, support and advice is important but micro-management should be avoided, and specialization does bring advantages.

34. In **Pakistan**, the Swiss Agency for Development Cooperation (SDC) actively supports leasing to micro and small enterprises. The SDC decided to work in the leasing industry in Pakistan in order to test the

potential for private sector financial institutions to contribute to the development process and to test the viability of leasing as a source of finance for small enterprises. The SDC works through partner companies, the first of which was the Network Leasing Corporation (NLC), established in 1995 and receiving SDC support shortly thereafter. NLC provides lease financing and development services for small and micro enterprises. NLC has been able to generate a lease portfolio of US$ 6.3 million with 1,700 clients and has received a rating from an internationally recognized agency allowing it to access capital directly from the financial markets.

4. Innovations in equity financing - venture capital funds

35. Venture capital involves the provision of investment finance to private small or medium-sized companies in the form of equity or quasi-equity instruments not traded on recognized stock exchanges. It is long-term risk finance where the primary return to the investor is derived from capital gains rather than dividend income. Venture capital investors are actively involved in the management of the investee company, with the intention of helping to assure the success of the venture.

36. A distinction is usually made between venture capital and seed capital. Seed capital refers to direct equity capital in start-ups in the initial rounds of finance. Venture capital, on the other hand, refers to the next round of finance in companies that have achieved stability and have strong growth potential.

37. A venture capital fund would typically invest in an SME in a high-growth sector looking to expand its operations. Venture capital can also play a role in buy-outs of more established companies. The involvement of a venture capitalist is usually from 2 to 4 years, after which the venture capitalist will typically either sell the shares of the company on a stock exchange, e.g. an initial public offering (IPO), or sell the whole stake in the company, e.g. to a more established competitor.

38. Venture capital has the potential of offering a valuable source of finance complementing the more traditional credit finance provided by commercial banks. Some of the fundamental reasons hindering SMEs from obtaining credit from commercial banks and other credit institutions are less important in attracting venture capital.

- Venture capitalists are willing to accept higher risks than traditional banks in exchange for potentially large gains from sale of shares in the company.
- Venture capitalists do not require collateral from borrowers.
- Operating costs are lower due to the absence of high interest rate payments.
- Venture capital - by nature - is long-term or at least medium-term capital, in contrast to short-term loans from banks.
- The managerial know-how provided by venture capitalists can in some cases be more valuable to the start-ups or SMEs than the actual financing received.

However, there are also a number of drawbacks.

- As in traditional bank lending, operating costs associated with lending a small amount may discourage investors.
- The need for highly liquid markets is not as pressing compared to open-end funds or mutual funds, since venture capital funds have a long-term involvement in the companies they invest in. Nevertheless, an exit mechanism is necessary for venture capitalists to attain capital gains. This is difficult in almost all developing countries except those with emerging capital markets. Other mechanisms such as guaranteed buy-backs do not seem realistic for SMEs.
- As the majority of companies that venture capitalists invest in either fail or yield only modest profits, successful ventures must generate large enough returns to cover losses incurred from the less successful

investments. The need for potentially very high profits rules out the bulk of SMEs and start-ups that do not have the potential of becoming future mega-companies and is one reason venture capital is concentrated in high technology sectors.

39. To date the United States has clearly been the most important market for venture capitalism. A number of the country's leading corporations - Federal Express, Microsoft and Intel to name a few - received venture capital in their early stages, which demonstrates the important role that venture capital funds play in the economy. Some key aspects of the leading position of the United States arise from an enabling legislation and a business culture that promotes entrepreneurship. However, in recent years Europe as well as developed areas of Asia have been quickly catching up.

40. In developing countries the role of venture capital - especially commercially oriented capital - has been very limited. Only big and/or relatively advanced emerging markets have been targeted by a small number of internationally active venture capital funds. Typically, developing countries lack potential investment opportunities (a large number of young companies with strong growth potential), and exit possibilities are usually restricted to a sell-back to the original promoters, which does not allow for profits comparable to those achievable through listing or trade sales to strategic investors. Furthermore, investing in local SMEs in developing countries often involves working with entrepreneurs who are not familiar with conventional financing relationships and business practices, which substantially increases the amount of work required from the investor.

41. There are, however, a number of development-oriented venture capital funds that are relatively active in the developing and transition countries. One of the more active players in the field is **SEAF** (Small Enterprise Assistance Funds), which has established venture capital funds in the Baltic region, Bolivia, China, Peru, Poland, Russia and some other countries. SEAF manages some US$130 million in funds and has a portfolio with over 160 investments. SEAF capital sources include multilateral institutions, bilateral development agencies and private foundations. SEAF provides SMEs with long-term venture capital combined with technical assistance. SEAF recognized that its model would not work unless the investees themselves saw that the investments were made on a commercial basis. Many of the funds established by SEAF have in recent years become profitable. At the same time management costs have declined from 8 per cent to somewhere between 2.5 and 3.5 per cent.

42. The **EIB** (European Investment Bank) has established venture capital funds in Africa. The funds have been used to acquire an equity share in small enterprises and to provide business guidance to these enterprises. The objective was to realize commercial returns by participating in profits and capital gains. The success of these investments in Africa (i.e. rate of return and percentage of failures) is not that different from performance in other countries. All in all, in 2000 the EIB made available 215 million euros in risk capital to African and some other developing countries[5]. Some of the observations made by the EIB include the following:

- Macroeconomic instability makes it difficult to make earnings projections;
- Management skills are in short supply in Africa;
- Uneven accounting and auditing standards provide opportunities for "massaging" numbers;
- A minority stake in a company does not always bring a solid voice in the company;
- Exit from the investments is complicated.

[5] Figure includes investments in Caribbean and Pacific States, but excludes South Africa.

5. Main conclusion: the need to combine financial and non-financial support

43. Banks tend to charge SMEs high interest rates and to adopt a rigorous and pre-emptive approach with respect to collateral because of the difficulty they face in identifying creditworthy and promising SMEs. The most efficient way to encourage lending to SMEs is to improve existing institutions' ability to construct profitable and efficient SME lending programmes. This can be achieved by minimising the risks through appropriate tools and methodologies to assess the creditworthiness of potential SME borrowers and to lower the overall costs of lending to SMEs, as reviewed in the above sections.

44. Business development services (BDS) providers can play an important role in this process thanks to their closeness to clients and to their direct knowledge of enterprises' financial status and past performance. BDS providers are often better placed than financial institutions to identify potential clients, ascertain their credit-worthiness, diffuse adequate financial and accounting techniques, pre-screen project proposals, monitor repayment, exert peer pressure, and maintain one-to-one contacts during the entire payback period. Thus, the complementarity between BDS provides and financial services helps to:

- Minimize both the risk and transaction cost to creditors and investors;
- Make access to credit and equity less costly and less cumbersome for SMEs.

45. A number of BDS programmes such as **EMPRETEC**[6] link credit delivery to the business development requirements of SMEs. EMPRETEC is designed to build the capacity of SMEs, transform them over time into creditworthy borrowers, and make them more attractive to financial institutions and venture capital funds. Enterprise Africa, a BDS programme of UNDP modelled on EMPRETEC, has developed a joint credit delivery scheme or a credit window which is jointly initiated by Enterprise Africa and a partner financial institution. Credit decisions take into account not only the basic credit appraisal criteria, but also the capacity building services provided to the SME by Enterprise Africa, thus improving the SME's chance of gaining access to credit. Furthermore, Enterprise Africa assumes responsibility for the loan referral and monitoring process, thus reducing lending costs for the partner financial institutions and improving the quality of the monitoring process.

II. E-FINANCE FOR SMEs

Introduction

46. The discussion in part I of this issues note of a number of instruments used in developed countries to enhance the access of SMEs to finance underscores both the importance of the problem and the failure of traditional approaches to it. Part II examines the potential of e-finance (defined mainly as Internet-mediated financial services) to provide cheaper, faster and more widely available finance for SMEs, with a particular emphasis on the prospects for the emergence of SME-oriented e-finance services in the developing countries and economies in transition.

47. As an information-intensive industry, finance is being profoundly affected by the dramatic reduction in the cost of generating, processing and transmitting information that has been brought about by ICT and the Internet. From the standpoint of financial infrastructure development and in particular SME financing, the main transformations that can be noted are:

- Much lower costs and higher speed. The Internet reduces the cost and increases the speed at which financial services can be delivered. It also allows substantial reductions in development and operational costs. Internet banking transactions have a marginal cost of just a few cents compared to one dollar for a

[6] Empretec is an integrated capacity-building programme of UNCTAD that provides developing countries with the institutional framework to foster entrepreneurial capabilities and the growth of internationally competitive SMEs through training, business development services, networking and access to finance.

traditional transaction (the same proportions are true for brokerage). In a competitive environment, this should narrow margins for intermediaries and hence result in less costly finance for SMEs.

- Wider access and networking. Internet-based services can be accessed through a wide variety of devices from anywhere in the world. Both terminals and access protocols are standardized and relatively easy to use. This creates new possibilities for SMEs to enter into global electronic databases, make and receive e-payments and obtain trade financing services from both established global and local players. The resulting increased competition should provide an incentive for local banks, credit insurers and other financial service providers to introduce online services and lower the cost of financing for local SMEs.

- Richer menu of services. The Internet may allow SMEs in developing countries to access an array of new e-finance services and instruments that are quickly emerging in the most advanced markets.

48. Thanks to the Internet, financial information is becoming accessible not only to a small group of professional intermediaries, but is being distributed widely and at a very low cost (or even for free) to hundreds of millions of users, including SMEs. The extremely low unit costs of modern data mining techniques makes it possible to include millions of SMEs in Internet-compatible credit information databases. These and other changes brought about by the Internet amount to a revolution in the financial services industry – a revolution that is increasingly making inroads into developing and transition economies and whose progress there will depend on the extent to which the physical and regulatory infrastructure for e-commerce is effectively put in place.

1. E-finance: The impact on players and markets

49. The changes induced by the Internet in the financial industry are particularly visible among providers in the developed world, but developing countries and economies in transition will also be affected. According to some forecasts, in five years' time the share of e-finance in developing countries may vary between 20 and 35 per cent for e-banking and between 15 and 40 per cent for e-brokerage.[7] This section will take a brief look at the way the Internet is changing the character of market players and influencing three segments that are relevant to SMEs: payments, trade finance and financial information services. However while SMEs are actively participating in traditional finance parts of the mentioned three sectors, their e-finance variants are still new for them and are generally accessible mainly for big players. Moreover, e-brokerage and related e-financial markets, being one of the most advanced parts of e-finance, are even less relevant for the purposes of developing SME e-financing and therefore are not addressed by this issues note.[8]

1.1 Emerging e-finance players

50. A common misconception about the economic implications of the Internet was that it would reduce the role of intermediaries. Technology, it was said, would mean the practical disappearance of barriers to entry and the eventual triumph of aggressive newcomers, unencumbered by legacy systems and habits. This has not happened. According to a study, entry barriers to banking, insurance and e-money issuance are high, though those related to brokerage and payments are less prohibitive. Brand name, economies of scale and physical location represent the most difficult obstacles.[9] Established financial institutions that have a strong customer base and implement aggressive Internet strategies have a major competitive advantage over newcomers. Thus,

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[7] "E-Finance in Emerging Markets: Is Leapfrogging Possible?" by Stijn Claessens, Thomas Glaessner and Daniela Klingebiel, The World Bank, Financial Sector Discussion Paper No.7, June 2001. The higher projections are dependent on improvements in connectivity, the business environment and the regulatory and institutional framework of e-finance.

[8] For a more detailed analysis of e-commerce and financial services see "Building Confidence: E-Commerce and Development Report", UNCTAD 2000, Chapter 2 Section III.

[9] Setsuya Sato, John Hawkins and Aleksander Berentsen, "E-Finance: Recent developments and Policy Implications", in Tracking a Transformation: E-commerce and the Terms of Competition in Industries, Brookings Institution, July 2001.

"clicks-and-bricks" models have largely displaced pure Internet-based models in e-finance. At the same time, new intermediaries such as financial portals, transaction aggregators, financial applications services providers, etc, have emerged.

51. Another misconception was that Internet systems are simple to build. While setting up a basic website can be cheap and easy to do, designing and operating a fully functional Internet-based organization that accommodates a large number of different transactions in a secure manner is a complex and protracted endeavour. In addition, there is limited prior experience to draw on, and the necessary skills and know-how are still scarce.

1.2 Payments and settlement systems

52. In the earliest stages of the development of e-finance, online payment systems were commonly considered to be potential "killer applications". However, the experience of the emergence of Internet-based payment systems proved that various payment systems and institutions can coexist and adapt to the requirements of the Internet and new applications and actors have not replaced the traditional ones. Many new online systems have run into difficulties, sometimes fatally. At the same time credit and debit cards are still the main choice of settlement for business to consumer (B2C) e-commerce transactions.

53. Online versions have been developed for practically all the conventional payment instruments, such as cash, money orders, giro transfers, checks, drafts, notes, and bills of exchange. The same is true for the wholesale payment systems, including so-called automated clearing house (ACH) networks, "wire transfers" for big volume payments and inter-bank payments networks. Electronic Bill Presentment and Payments (EBPP) systems are beginning to be used in payment transactions between companies and between them and their banks.

54. In spite of the mixed record of the first wave of innovation, the development of Internet-based payment systems has not slowed down. On the contrary, it has intensified and broadened in scope. The B2C and B2B (business-to-business) segments continue to attract new entrants, including SMEs. Some of them are start-ups backed by venture capital while others are well known IT providers.

55. More importantly, banks are beginning to change their attitude towards the application of the Internet in their core B2B high-value, ACH and other payment networks. The Society of Worldwide Interbank Financial Telecommunications (SWIFT), the biggest inter-bank payment system (with a daily payments traffic of more that US$ 5 trillion) and major card companies such as Visa are becoming the main players in the sector of Internet-based settlements systems. In December 2000, SWIFT started to migrate to a new IP-based network, SWIFTNET, while Visa is planning to rapidly expand the share of its online and offline smart cards, including those for companies, i.e. mainly SMEs.

56. In order to provide electronic signatures and personal identification technologies, some large banks have developed their own certification authorities (CA). Several major financial institutions have also created a global public key infrastructure (PKI) – the IDENTRUS consortium – which is operated by the member banks as root certification authority underneath their local CAs. IDENTRUS seeks to create a global trust infrastructure for banks and their corporate customers in order to facilitate secure e-payments for business-to-business transactions in more than 133 countries. This and other systems of secure transactions are especially important for SMEs. If an SME is accepted by a PKI, it already gives positive signals to its partners about its reliability.

57. In spite of the developments mentioned above, it remains to be seen how quickly and to what extent the major payment systems will move from an architecture based on closed networks, proprietary protocols and mono-industry governance to one built around open networks, standard protocols and cross-industry governance and interoperability.

1.3 Trade finance systems

58. Although electronic trade finance packages existed before the emergence of the Internet, they were based on proprietary systems owned and operated by individual networks of banks or groups of banks. Progress in the substitution of paper documents by their electronic equivalents was sluggish.

59. E-finance has started to change this situation. Electronic versions of the existing instruments for third party protection against non-payment and non-performance risks, including documentary credit, credit insurance, bonding, factoring and forfeiting, are being developed quickly. A number of Internet-based trade finance solutions have been launched (Bolero, TradeCard and Certegy, among others), often backed by key trade finance players. However, for the time being their share of global trade finance remains small.

1.4 Electronic credit information and management systems

60. The Internet has cut down the cost of credit information, which used to be expensive and difficult to obtain. Information-processing technologies have also created opportunities for the development of new, more sophisticated applications. For example, scoring and data mining are now linked, which allows more efficient company research and product pricing.

61. Most comprehensive Internet-based services are delivered by well-established commercial information companies (such Dun and Bradstreet or Equifax) or credit insurance providers (such as Coface) with a long history of international presence. The continued leadership of these players can be linked to the persistence of high barriers to entry, derived from the high costs of the compilation of credit information databases (with SMEs representing the main part of their content). Those companies that have the largest databases with the longest historical coverage and huge updating capacities enjoy a strong and lasting comparative advantage.

2. E-finance experiences in developing countries: A wide variety of situations and approaches

62. Although the level of e-readiness of developing countries is extremely uneven, their awareness about the contribution that e-commerce can make to their development prospects is growing rapidly. In e-finance this interest has translated into an increasing number of initiatives launched by the various levels of national Governments, international organizations, local and foreign private sector and non governmental organizations. Local, regional and global projects are being initiated by established businesses and by new entrants. Subsidiaries of well-known groups are improving local access to global Internet services as well as adding local content to their services in co-operation with local partners.

63. At the regional level, a number of cross-border services have emerged in Latin America and the Asia-Pacific region. Various e-finance projects, created by global banks such as Citibank, HSBC and Deutsche Bank, credit card associations like Visa and Mastercard and some others, have had a global scope since their inception. Some of them, such as the CitiBusiness programme and the Visa Business Card, focus on SMEs. Multilateral financial institutions such as the World Bank, the European Commission and the regional development banks, have also funded a number of e-finance projects, for both private and public recipients.

64. Two interesting examples of e-finance initiatives specifically geared to serving the SME market are SMEloan of Hong Kong (China) and Pride Africa. SMEloan, which uses a web-based risk management model, is already the leading online provider of SME finance in Hong Kong (China) and plans to expand its current customer base of 200 SMEs to over 1,000 by mid-2002. Pride Africa provides access to credit to more than 80,000 small-scale entrepreneurs in Kenya, Malawi, Tanzania, Uganda and Zambia.[10]

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[10] World Bank (2001), p. 36. For more details see www.SMEloan.com and www.prideafrica.com

3. Challenges of e-finance for developing countries and their SMEs

3.1 Combining global and local

65. While the Internet creates opportunities for SMEs to undertake e-commerce and e-finance on a global scale, it also gives them the possibility to trade, pay and get paid online at the regional and the local levels. The balance between the costs of Internet access and communications on one side and those of physical presence on the other will determine the pace at which enterprises will engage in local e-commerce and e-finance.

Emerging global online finance platforms and the needs of developing countries and their SMEs

66. The existing global on-line finance platforms, such as SWIFT or IDENTRUS, are not designed to address the specific needs of SMEs in developing countries. On the other hand, local e-finance platforms are either still not there or lack reach and functionality. While locally designed e-payments systems and other e-financial services infrastructures may grow in importance in the medium term, global e-finance platforms should be encouraged to design specific functionalities for SMEs. In any case the interoperability of the various e-finance platforms will be crucial. In practice, interoperability is as much a business question as it is a technical problem. Conditions of interoperability should therefore be given careful consideration.

67. From the viewpoint of the development of SMEs and the facilitation of their participation in international trade, accessing rating and data mining services is perhaps the most important way in which developing countries could benefit from e-finance. However, ensuring the presence of the SMEs of the developing countries in such databases presents a formidable challenge.

68. To be listed in platforms such as a rating of COFACE, SMEs need to produce reliable financial statements and to update them regularly. This will in turn require serious efforts to upgrade their managerial skills and practices. To reach local SMEs and build up such databases, local Internet-compatible credit information and credit insurance services are needed. They might be delivered either by local entities or local branches of the global players. The same is true for factoring and leasing. Local banks will also be under pressure to adapt to electronic letters of credit and other e-trade finance techniques, thus helping to link local traders with their e-commerce counterparts abroad.

69. E-finance will stimulate the emergence of new forms of business organizations, hubs, networks and associations. It will therefore be important to allow and facilitate the development of new networks, to develop e-finance B2B and B2C portals and marketplaces and to ensure that they are accessible also for the SMEs of developing countries. For that to happen, SMEs need to be able to produce and disseminate corporate and financial information about themselves. They also need to receive information, advice and training on how to make the best use of existing e-finance systems, especially when choosing among different offers of financing. This, for example, is the main objective of the Export Finance Matchmaker created by the Department of Commerce of the United States, which SME exporters can use to access a menu of choices in trade finance.[11]

Applying global e-finance instruments locally

70. The menu of global e-finance products and techniques includes the quasi totality of traditional payments and trade finance products. Starting from online services designed for SMEs (such as those developed by SMEloan and Pride Africa), the choice of e-finance services for SMEs might be extended to Internet banking (which is already actively used in Latin America and Asia to serve high-worth clients and

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[11] See www.ita.doc.gov/td/efm

companies), an array of electronic trade finance products (including e-letters of credit, e-credit information and e-credit insurance, e-factoring, e-leasing, e-warehouse financing and other electronic modes of asset-based financing) and smart cards.

71. The main advantage of smart cards (in which the electronic equivalent of cash is stored electronically) in a developing country context is that they can reduce the need for a costly and comprehensive financial infrastructure, thus providing an opportunity for technological leapfrogging. An additional reason for which smart cards can be of interest for SMEs is that they offer a relatively easy and inexpensive way to generate credit record information, the lack of which is among the constraints that limit their access to credit. Smart cards can also serve as an identification means, thus ensuring the authentication of parties and the security of their e-payment or e-financing transaction. And they can be used to settle small-value offline transactions. For all these reasons, smart cards are considered to be a potentially far more efficient alternative to traditional development bank lending in regions such as Africa[12]. A number of initiatives, for instance in East and Southern Africa (where 16 countries jointly acquired the franchise rights for Mondex, an e-cash system), Ghana (which plans to use smart cards to move from almost no e-finance infrastructure to full e-cash capability) and South Africa (where the Post Office uses them, among other things, to provide access to banking services in remote rural areas), indicate growing interest in these e-finance tools.

72. Local financial service providers enjoy the advantage of a much better knowledge of local companies and of local e-finance arrangements. This should facilitate the development of Internet banking and card-related services by leading local commercial banks. In countries where commercial banking is weak, partnerships with global financial institutions with the e-finance know-how could bring in new commoditized e-finance products to service SMEs. Facilitating the establishment of global financial service providers may also provide incentives for local financial service providers to adapt to e-finance practices.

73. Regional cross-border groupings may also be a possible avenue for the development of local e-finance services. In Latin America, several ventures have gathered banks and IT companies together to offer local and regional services. But the long-term sustainability of such alliances will depend on the objectives and agenda of their members. The participation of multilateral development banks in co-financing and providing logistical support for similar ventures at both the regional and local levels might add momentum and credibility to that process. One example of this possible role of multilateral institutions is provided by the E-Finance Global Initiative recently launched by the International Financial Corporation, which aims at helping financial intermediaries to target small-scale businesses.

74. The dominant model in e-finance today is the "click-and-bricks" financial institution. This model may be difficult to implement in those countries where the "bricks" are few. In this case, the SMEs will have to rely on remote Internet banking services from established providers, more or less in the same way as countries with deficient fixed-line telecommunications have to rely on GSM as their main telecommunication infrastructure.

75. Governments may play a role by using the existing public infrastructure such as post offices. For example, post offices in South Africa are becoming e-finance hubs, giving their millions of users access to Internet and to some basic e-payments. A similar initiative is being implemented by the Government of India, which is equipping its post offices with high-speed Internet access. Many regional and city authorities in China are also developing interlinked e-business frameworks, including e-finance elements.

Leapfrogging and getting linked to global e-finance

76. Thanks to e-finance, developing countries have the possibility to skip stages in the development of their financial sector. However, it is not certain that every developing country will be in a position to benefit from these opportunities for technological leapfrogging. The absence of a financial and technological history is also

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[12] World Bank (2001), p. 35.

a two-edged sword. On the one hand, it makes it easier to build a cutting-edge electronic financial system from scratch, as was the case in Poland for example; on the other hand, building an e-finance sector from scratch requires the mobilization of complex skills in the financial, telecom and information technology sectors, which many developing countries do not have and cannot develop without strong external support. In spite of this, the potential is real and in some cases substantial, as the examples of countries like Estonia, Republic of Korea, Brazil and some other countries have proved.

3.2 Creating an enabling environment

The importance of the regulatory and contractual framework

77. The areas in which governmental action can contribute to creating a supportive environment for the development of e-finance are not fundamentally different from those commonly considered important for the development of e-commerce in general. They involve issues such as the promotion of competitive telecommunications services, the adaptation of legislation to paperless trade, facilitating the implementation of systems to ensure security in electronic transactions, enhancing the IT skills of the workforce, promoting wider access to computers and the Internet, etc. However, because of its specific characteristics, some of these aspects are of even greater importance in the case of e-finance.

78. An appropriate legal framework that generates trust among all the players involved in e-finance (service providers, SMEs and their customers and suppliers) is crucial. Such a framework should also create a level playing field between established players and newcomers, as well as between banks and technology providers.

79. Governments need to re-examine the legal separation between various financial offerings such as commercial banking, securities and insurance. This separation becomes obsolete when a single financial Internet portal can be used to open an interest-bearing cash account with a brokerage house, take out a loan, invest in the stock market or buy an insurance policy.

80. At the same time, it is essential to ensure the overall soundness and stability of financial systems. This may entail new approaches to prudential supervision in order to cover new activities and participants. Some authors suggest that a smooth transition from an "institutional oriented" approach to a more "functional" one may enhance the environment for financial operators[13]. Issues such as the quality of and access to information, intellectual property rights, security and privacy, consumer protection, service quality, taxation and others are becoming more important than the direct provision of financial services to target groups. The issues of security and privacy might be among the most serious hurdles in the way of the developing countries to e-commerce and e-finance.

81. Another aspect of the regulatory framework of the financial industry that is being affected by e-finance concerns exchange controls and other restrictions on the movement of capital. While e-finance does not eliminate borders completely, it does make them more porous and creates new ways in which businesses and households can circumvent restrictive regulations. Thus, in many countries where exchange controls are in place, residents are using the Internet to open accounts with foreign banks or brokerage houses.

4. Conclusion

82. The development of e-finance in general and in developing countries in particular is so recent that definite conclusions on its implications for enhancing the competitiveness of SMEs cannot be drawn yet. Moreover accurate methods to measure e-finance have not been developed yet and data are difficult to collect. Nevertheless, some preliminary observations can be made.

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[13] World Bank (2001) p.91

Foundations for early hopes

83. In developed countries, e-finance has already led to significantly lower costs and greater access to financial information. In developing countries, there are some initial indications that the Internet can stimulate the development of local financial services, thereby contributing to the improvement of productivity and competitiveness. On a cross-border basis, e-finance services aiming at facilitating international trade are off to a promising start. A medium-term outcome of these processes should be that SMEs in developing countries could enjoy new opportunities to obtain finance at a significant lower cost.

But the impact of e-finance on the SMEs remains limited

84. However, for all the encouraging signs, the impact of e-finance on SMEs appears to be limited so far. The majority of B2B initiatives aim at larger companies. The number of SMEs in developing countries capable of using e-finance services remains small. Basic drawbacks are the high cost of hardware and of Internet connections and the conservatism and lack of skills of small entrepreneurs. Furthermore, while access to e-finance through local banks might be technically possible, the weak state of credit information, contract enforcement and other problems of conflict resolution framework still make it rather problematic.

Critical factors of success

85. Flexibility and agility are the rule in e-business in general. E-finance is still in its early stages, when learning from mistakes will be essential in order to develop a better understanding of its benefits and drawbacks. In this fast-changing universe, first movers do not keep a sustainable advantage for long. The ability to change course and to modify the business model and/or technical architecture in response to changing market requirements and evolving technology is a key competitive advantage. The professionalism, quality of management and versatility of banks and other financial service providers are equally crucial.

86. In order to benefit from e-finance tools that are already available (especially in fields such as payments, credit risk and trade finance), SMEs will need to adapt their business culture and organizational structures. They should in particular improve their capacity to generate financial information that can be incorporated in global Internet-based platforms and upgrade their skills to understand and use e-finance information and instruments.

87. Increased competition among financial services providers is the main channel through which e-finance will improve the competitiveness of the SMEs of developing countries, by accelerating financial innovation, reducing transaction costs and enhancing the quality and widening the choice of financial services. It is therefore important that developing countries generate an environment in which competition and innovation in e-finance and the adoption of the best practices already in place in the more advanced countries can take place. Most of the policies and support measures that are required for the creation of such an enabling environment for e-finance coincide with those that are needed for the facilitation of e-commerce in general in developing countries. This is an undertaking that calls for multiple partnerships between Governments and the private sector and should be actively supported by international organizations. Governments should also facilitate the emergence of cross-border partnerships at the regional and global level, as they will be essential for developing countries to realize the potential opportunities for technological leapfrogging in e-finance.

Issues for consideration by the Expert Meeting

88. SMEs are considered to be high-risk and high-cost borrowers by financial institutions. The concern of financial institutions is partly justified, since SMEs in many cases lack reliable financial information and collateral. Both of these deficiencies can be resolved in ways that do not distort market-oriented ways of conducting business. The Experts will discuss best practices in financing SMEs, including through the application of e-finance, in developing countries. In that respect they may wish to consider the following

questions and suggest policy options and actions to be taken at the national and international level. They may also wish to make specific suggestions which could be considered by the upcoming Conference on Financing for Development.

89. On finance:

- What measures could developing countries use to induce commercial banks to lend to SMEs? In particular, could restrictions on SME lending be lifted? How could guarantee schemes be improved so that the target audience is reached and moral hazard avoided? How effective would targets and mandatory reporting requirements be in increasing pressure on commercial banks to lend to this underserved sector? How can banks be encouraged to streamline procedures?

- How can simplified and standardized accounting and reporting systems for SMEs reduce risks and transaction costs? How could such simplified and standardized accounting systems be best introduced?

- How replicable are the innovative financial mechanisms in developing countries and how can information about the most appropriate innovative financial mechanisms be disseminated? How effective would regional programmes be for capacity building and training of bank staff ? What role could regional development banks play in this regard?

- What measures can international financial institutions take to ensure that their beneficiaries in the financial sector in developing countries reach SMEs and use innovative mechanisms? How can they encourage transnational banks to apply the same policies and techniques for reaching SMEs in home and host countries?

- How can developing countries and the international community ensure that the provision of finance is linked to the provision of business development services (BDS)? How can partnerships between banks and BDS providers be encouraged?

- How can information flows be improved in order to deepen capital markets enough to serve SMEs?

- How can the obstacles to SME venture capital funds, leasing and insurance be overcome in developing countries?

90. On e-finance:

- What kind of policy framework should developing countries adopt to improve Internet access and related technical base and skills for local SMEs and financial service providers?

- How can the creation of local and regional credit information services be fostered and SMEs encouraged to enter into local, regional and global online information databases as a first step to access to e-finance?

- How can local financial institutions be encouraged to go online and develop SME-specific lines of e-finance?

- What can be done to ensure that the assistance of international financial institutions focuses more on supporting capacity building in the area of e-finance?

- How can best international practices in e-finance for SMEs be disseminated among developing and transition economies?

- How can global and local e-finance providers be encouraged to focus on SMEs?

- How can the main stakeholders develop, in cooperation with each other, technical assistance and training packages on e-finance for both local financial services providers and SMEs?

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REPORT OF THE EXPERT MEETING ON IMPROVING THE COMPETITIVENESS OF SMEs IN DEVELOPING COUNTRIES: THE ROLE OF FINANCE, INCLUDING E-FINANCE TO ENHANCE ENTERPRISE DEVELOPMENT

Held at the Palais des Nations, Geneva
22-24 October 2001

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Chapter I

OUTCOME OF THE EXPERT MEETING

1. The Expert Meeting on Improving the Competitiveness of SMEs in Developing Countries: The Role of Finance, including E-Finance, to Enhance Enterprise Development examined a range of issues for consideration by the Commission on Enterprise, Business Facilitation and Development pursuant to paragraphs 119 and 156 of the Bangkok Plan of Action (TD/386). Experts made presentations and exchanged views on trends in financial innovation and best practices at the international and national levels.

2. The experts noted that sustainable economic growth is strongly related to the rate of enterprise creation and technical innovation. Vigorous enterprise creation depends on a nation's entrepreneurial culture and the ease with which businesses can be started and financed.

3. They recognized that many financial institutions in developed and developing countries find it difficult to serve small and medium-sized enterprises (SMEs) because of high perceived risk and high transaction costs and lack of experienced personnel and appropriate corporate structures, which bias them against SMEs, including those created by women entrepreneurs. The key to securing access for SMEs is to improve the ability of financial institutions to seriously expand and make more efficient the delivery of financial products, both offline and online, for different segments of SMEs. It is important for financial institutions to know their markets and customer needs and offer packages of tailor-made products, as well as automatic and standardized ones.

4. They equally stressed that the advent of the Internet, with the possibility of achieving enormous efficiency gains, including much lower transaction costs, faster communication and unparalled networking opportunities, has brought about new opportunities and challenges for SME access to finance and in particular to e-finance.

5. The experts reviewed a number of innovations used by international and national financial institutions to facilitate SME finance. Local financial institutions in developed countries, which have been particularly successful in serving the SME market, have found that it is highly profitable. Their strategy is to improve their core competencies by adopting sophisticated credit techniques such as credit scoring, strengthening management and information systems and developing highly efficient automatic processes, efficient marketing and distribution, and developing close ties to clients. The experts also discussed complements to finance such as insurance and guarantee schemes that could increase a bank's ability and interest in terms of servicing SMEs. They considered how such innovations could be widely applied to developing countries, where the conditions for SME development are often much less favourable.

6. They also observed that in developing countries equity funds and especially venture capital funds have greater difficulty in serving SMEs or even identifying fundable ones. Such

difficulties severely limit the amount of equity and venture capital funds available to SMEs in developing countries and particularly in LDCs. In the case of the LDCs, there is a special need for public-private investment funds devoted to the support and promotion of SMEs and information infrastructure development.

7. During the second part of the meeting, the experts stressed the revolutionary impact of open Internet technologies and platforms on financial services. In particular, they discussed the development of online payments with or without the use of cards, Internet banking, e-trade finance and e-credit insurance. The discussion centred on adapting these online financial services to the needs of SMEs and in particular SMEs from developing and transition economies.

8. The experts paid special attention to a number of innovations in the financial industry to reduce costs and risks, including modern Internet-based data mining technologies making it possible to build up huge credit information databases and apply modern credit analysis and related credit appraisal, scoring and rating techniques, permitting the appraisal of SME credit risks and the rapid processing of their credit applications. They considered how those innovations could be introduced or further developed in developing countries.

9. They agreed that the provision of medium and long-term finance should be closely linked to the delivery of business development services so as to improve both the viability of SMEs and their ability to repay loans. They urged that partnerships be struck between financial institutions, business associations, networks of entrepreneurs and business development service providers.

10. Lastly, they noted that the international financial system can influence the availability of domestic and external resources and in particular long-term finance for productive purposes in developing countries. They therefore requested that their recommendations on ways and means of increasing SME access to finance should be made available to the next preparatory meeting of the forthcoming UN conference on Financing for Development in Monterrey, Mexico, in March 2002.

11. The experts examined a number of best practices that can facilitate SME access to finance and recommended the following for consideration by:

Governments

Finance

(a) Maintaining prudential supervision of the financial sector, taking into account the specific requirements for medium and long-term investment finance for SMEs, and ensuring that commercial lending to SMEs is on a sustainable basis;

(b) Avoiding crowding out of the private sector by excessive borrowing from national financial institutions;

(c) Designing loan guarantee schemes that reach target beneficiaries, ensure balanced risk sharing and avoid moral hazard;

(d) Requiring commercial banks to disclose the composition of their loan portfolios, particularly the percentage of loans going to SMEs ;

(e) Encouraging banks to implement good corporate governance practices and transparent procedures and, within this framework, to appoint independent outside experts with a knowledge of SMEs to their boards of directors;

(f) Improving the reliability of financial information provided by SMEs by adopting user-friendly accounting and reporting requirements;

(g) Promoting an institutional framework for SME support services;

(h) Supporting public-private sector partnerships for SME venture capital funds and investment funds ensuring a level playing field for all market participants;

(i) Adopting regulatory and legal frameworks that allow for the establishment and best use of financial sector infrastructure such as credit bureaus and other information sharing solutions, while maintaining appropriate privacy laws;

(j) Creating conditions for promoting local capital markets;

Public and private sector

E-finance

(k) Creating a technology-neutral e-commerce and e-finance friendly regulatory environment and developing secure methods of electronic transmission of commercial messages, e-signatures and e-contracts, which should be considered as legally binding by contracting parties;

(l) Adopting flexible regulations and creating a supportive institutional environment to encourage the introduction of e-payments, Internet banking, online trade finance and credit information and other e-finance relevant to SMEs in developing and transition economies and ensure public–private cooperation in that respect;

(m) Developing a conceptual framework to allow systematic collection of data on e-finance;

(n) Encouraging a variety of partnerships and joint ventures between local and foreign e-finance service providers in order to ensure the possibility of rendering efficient services to customers at local, regional and global levels;

(o) Improving international coordination among national financial supervisory authorities to better manage systemic risks related to the borderless nature of e-finance;

(p) Developing online credit information, credit scoring and rating databases for SMEs from developing and transition economies to facilitate and shorten their credit appraisal process and hence improve their access to finance and e-finance both locally and internationally;

(q) Creating local, regional and global e-finance platforms with the active participation of financial service providers and other companies from developing countries and making them accessible to developing country SMEs;

(r) Developing online business development and information services and supporting capacity building for SMEs in respect of getting online access to business opportunities and facilitating online matching of best conditions for their financing requirements;

(s) Supporting SMEs in acquiring technologies and skills required to pay and be paid online, as well as entering into longer-term trade-related e-financing arrangements;

(t) Laying foundations to develop a strategy for online access to longer term e-finance for SMEs;

(u) Developing alternative bilateral and multilateral online payments and financing arrangements, such as online clearinghouses, and making it possible to expand productive and trading frontiers of SMEs from developing and transition countries;

Development agencies and international financial institutions

(v) Bringing the recommendations of the Expert Meeting to the attention of Governments and national development finance institutions;

(w) Bringing the outcome of the Expert Meeting to the attention of the forthcoming UN Conference on Financing for Development in Mexico;

(x) Supporting SME associations in setting up infrastructure to collate and update SME data;

Finance

(y) Developing, whenever appropriate, debt swaps within existing aid budgets as a means of strengthening local financial institutions by providing them with medium and long-term finance for SMEs, also taking into consideration finance

and guarantee schemes in local currency. Debt swaps should also be used to provide business development services. This could be useful to complement the HIPC debt alleviation facility and for countries not benefiting from the facility. When dealing with capacity building, development agencies should be ready to enter into full partnerships with public and private stakeholders and share risks and responsibilities;

(z) Promoting user-friendly accounting and reporting systems for SMEs that would provide uniform (within the country) and useful financial information to managers, creditors and investors;

(aa) Disseminating information on financial innovations and assisting commercial banks in developing core competencies in credit policy making, risk management, credit information and management systems, and efficient marketing and distribution;

(bb) Developing/strengthening programmes that assist commercial banks in developing countries to train bank management and staff to better appraise SME credit risk, particularly in the case of women entrepreneurs;

(cc) Encouraging banks to develop contractual relations with business development service providers to better identify opportunities and to provide efficient follow-up services;

(dd) Joining with Governments and private partners in creating public-private venture capital funds and investment banks to assist SMEs;

(ee) Urging development banks to adopt a sectoral approach to:

(i) Policy dialogue with Governments and domestic national banks to create an enabling environment for SME support;

(ii) Long-term assistance through loans and equity to local institutions with a perspective of long-term sustainability;

(iii) Complementary capacity building for financial institutions and SMEs via business development service providers;

(ff) Developing common standards and systems to link commercial banks and micro-finance institutions to increase outreach and accelerate the mainstreaming of productive poor into the formal financial system;

E-finance

(gg) Facilitating, through policy dialogue, financing and technical cooperation, the introduction of a technology-neutral regulatory and institutional environment for e-finance;

(hh) Encouraging, through training, co-financing and various partnerships between local and international financial service providers, the introduction of e-finance and related financial innovation by banks and other financial service providers from developing and transition countries and thus demonstrating to them possibilities to tap into e-finance related efficiency gains;

(ii) Participating through co-financing and technical assistance in the creation of local and regional e-finance platforms of various types with a view to improving the quality of services rendered to SMEs and other customers;

(jj) Assisting the SME sector in developing and transition economies to acquire e-finance related technologies and skills as a part of improving their competitiveness and participation in the global economy;

(kk) Supporting Governments, public and private sector entities and NGOs in fulfilling the above-mentioned recommendations on e-finance;

(ll) Doing a more effective job of networking and creating clearing houses for information and experiences relating to types of infrastructure to support e-finance, in close consultation with private market participants;

(mm) Exploring a more structured approach to transfer of knowledge and training and associated cooperation between public agencies;

Commission on Enterprise, Business Facilitation and Development

(nn) Selecting a topic for the next two years which develops coherent approaches to SME finance, e-finance and non-financial business support services, taking into consideration the work of other agencies, in order to contribute to the effectiveness of UNCTAD's research, intergovernmental discussions and technical cooperation and ultimately to UNCTAD XI;

UNCTAD

(oo) Continuing its research on financing for SMEs particularly in the fields of new technology acquisition, export credit, e-finance and e-economy, which are critical for the competitiveness of SMEs and their participation in the global economy;

Finance

(pp) Completing its work on a user-friendly accounting framework for SMEs that will allow them to produce transparent, reliable and uniform financial and business information and reporting back to the Commission as soon as possible;

(qq) Ensuring, in its technical cooperation programmes for entrepreneurship, that business development services are linked to financial services and developing the necessary products and services within its programmes in order to facilitate this;

(rr) Developing, together with other relevant international agencies, programmes for women entrepreneurs to facilitate their access to finance, extrabudgetary funds permitting;

E-finance

(ss) Continuing systematic research into various online financial services and their impact on economic development and in particular on opportunities opened up for SMEs to improve their access to finance and e-finance;

(tt) Organizing regular fora, including regional seminars and group training, to sensitize governments, central banks, financial service providers and the corporate sector in developing and transition countries to the advantages of electronic finance at the local, regional and global levels;

(uu) Incorporating the aspects of e-finance that are more relevant to the needs of SMEs into UNCTAD technical cooperation activities in the area of e-commerce, and ensuring coordination and synergies with other international organizations active in this field;

(vv) Encouraging Governments, central banks and financial institutions to collect information on e-finance and using it for analysis, intergovernmental deliberations and technical cooperation.

Chapter II

CHAIRPERSON'S SUMMARY

12. The Deputy Secretary-General of UNCTAD noted that the theme of SMEs' access to finance was high on the international agenda of urgent issues. While major strides had been made to ease access to finance in developed countries, this was still not the case in developing countries. Much needed to be done to convince traditional creditors and investors that doing business with SMEs could be profitable.

13. Many financial innovations depended on advances in information technology. E-finance could offer many new opportunities if the appropriate regulatory framework was in place and capacity-building programmes for SMEs were available. He was confident that the experts would thoroughly review the questions of finance and e-finance and that the outcome of the Meeting would be directly relevant to the forthcoming international conference on Financing for Development to be held in Monterrey, Mexico, in March 2002.

A. Finance for SMEs

Innovative approaches in commercial banking

14. The experts began their consideration of financing for SMEs with a panel on innovative approaches and successful programmes in commercial banking. The lead panellist underlined the fact that sustainable economic growth was strongly related to the rate of enterprise creation and technical innovation. Vigorous enterprise creation depended on a nation's entrepreneurial culture and the ease with which businesses could be started and financed. There was an empirical relation between a slowdown in an economy and a lack of growth of new enterprises. Panellists from international and national institutions stressed the importance of a dynamic process of SME creation. They emphasized that lending to SMEs could be highly profitable if banks knew the market and customer needs. It was necessary for banks to segment the market and offer a package of products suited to the client. In order to do this, banks had to be close to their clients and have a well-developed branch network, as in the case of the German Savings Banks or Swedbank.

15. Surveys had shown that SMEs needed to know their local banker and valued a personalized service. The challenge for banks oriented to SMEs was therefore to blend the two approaches, i.e. using information technology (IT) to cut service costs and at the same time developing personalized services. The key to maintaining such a balance, according to the experts, was to segment the SME clients, reserving "high touch" service for the most profitable clients while encouraging the marginally profitable customers to use automated delivery channels.

16. In order to segment the market and offer the right package of products using the right approach (high touch vs. IT), national banks had to concentrate on certain core competences. These competences were developed by:

- Adopting sophisticated credit policies: using credit appraisal techniques such as credit scoring and risk-oriented pricing;
- Strengthening management and information systems;
- Developing highly efficient automatic processes, as well as efficient marketing and distribution;
- Developing close ties with clients.

17. Such an approach had helped commercial banks in developed countries to begin to service SMEs and at the same time to make a profit. However, to reach the SME sector effectively, training bank management and staff was essential because only experienced staff could provide good service and judge risks.

18. Examples were given of financial innovations in developing countries, particularly by the Small Industry Development Bank of India (SIDBI). SIDBI, in collaboration with the Indian Banks Association and the National Institute of Bank Management, had organized a number of bank manager sensitization programmes for financing of SMEs. SIDBI had also developed special programmes for financing technology upgrading and marketing. However, there was still a wide gap between the availability of working capital and long-term loans. In response, almost all Indian commercial banks had started giving composite loans (both term loans and working capital) under one roof. SIDBI also operated a National Equity Fund Scheme for projects of up to one million rupees with a 1% service charge. Along the same lines, SIDBI also ran Mahila Udyam Nidhi to assist women entrepreneurs. Numerous venture capital funds had been set up by public and private financial institutions. Apart from setting up 10 regional venture capital funds, one national fund and one overseas fund for IT industries, SIDBI was now setting up a special venture capital fund dedicated to biotechnology. To meet the problem of delayed payment of bills, commercial banks discounted them under the Bills Marketing Scheme with a rediscounting facility from SIDBI.

19. The most successful local banks had found it necessary to combine business development services with their financial services. Depending on their size and capabilities, they either provided these business development services in-house or entered into a partnership with business development service providers to serve their SME clients. It was often possible to outsource credit appraisal and monitoring, as well as the provision of business services such as business plans, accounting, marketing, etc. Business services made SMEs more creditworthy or attractive to investors, but the experts noted that someone must pay for these services.

20. International and regional financial institutions were also rethinking their approach in order to encourage their affiliates and partners to service SMEs. In developing countries, there was competition among financial institutions for traditional corporate clients. Many financial institutions therefore recognized the need to move down-market to SMEs, but the question was how to do it profitably. International financial institutions were concentrating on providing the financial infrastructure to selected national financial institutions and

encouraging them to leverage financial, information and communication technologies to reduce transaction costs and improve portfolio risk management.

21. It was acknowledged by a number of experts that commercial banks had little incentive to lend to SMEs and that they preferred to keep their funds in treasury bills. Until the public sector stopped crowding out the private sector, it would be very difficult to start a widespread movement among commercial banks to lend to SMEs. It was also noted that international prudential requirements would cause local banks to tighten their credit rating systems, thus increasing their costs and thereby reducing their ability to lend to SMEs. The proposed new Basel accord on the amount of capital that banks must hold threatened to choke off finance for small and medium-size enterprises.

22. Regional development banks such as the Asian Development Bank were offering credit lines of up to 15 years to local financial institutions, which were then able to provide long-term finance to SMEs, rather than merely short-term finance. However, these loans were in foreign currency, thus obligating the national banks to restrict lending to those SMEs earning foreign currency. The experts agreed it was preferable that the international financial institutions should provide local currency loans so that the risk of devaluation was borne by the international financial institution rather than by the receiving financial institution. Most SMEs did not earn foreign exchange and thus would otherwise be exposed to currency risk. One difficulty in servicing the SME sector was the lack of reliable and transparent financial information and the need to develop a user-friendly accounting system for SMEs that could generate information for creditors, investors and SME managers.

Equity and venture capital

23. The second session dealt with equity and venture capital for SMEs and complements to finance, such as credit insurance, which could help SMEs to enhance their access to finance, especially long-term funds. Among the issues discussed by experts in this session were: (i) elements of successful venture capital funds in reaching SMEs; (ii) advantages and disadvantages and latest trends in SME venture capital; and (iii) contribution of export credit insurance and guarantee schemes to increasing bank lending to SMEs.

24. Two experts provided accounts of the Small Enterprise Assistance Funds (SEAF) operating in developing countries and economies in transition and those of the Chinese Development Bank.

25. The primary mission of SEAF was to provide private equity financing for SMEs in underserved markets, generating commercial returns. It was underlined that, without commercial returns, the venture capital industry would not be able to attract private capital and would not be sustainable over the long term. An ultimate goal of SEAF was to promote the creation of capital markets for SMEs, which in developing countries remained underdeveloped. SEAF managed 14 funds for multilateral and private investors. The average investment in a company was US$ 300,000.

26. In China, the Government had implemented a number of measures to encourage venture capital funds and SME development since 1999. Such measures were part of the new emphasis on helping SMEs at the start-up and grow-up stages. The measures included encouraging technology innovation; increasing fiscal and taxation support; setting up a credit guarantee system; and improving social service organizations (e.g. pension funds). In the last two years, China's venture capital funds had increased significantly in terms of both the number of companies involved and the volume of funds. However, the venture capital industry remained quite limited in China, as most venture capital financing still came from the Government. The Chinese Development Bank (CDB) had been providing supplementary funding (long-term loans) and financial advice to help venture capital companies to attract more funds.

27. Special emphasis was put on the key elements of a successful SME venture capital fund:

- Experienced fund managers;
- Significant and high-quality deal flow;
- Professional business managers in enterprises;
- Adequate deal size in order to pay back completely the equity investment made by the shareholders;
- Some form of additional training, market opening, technology, etc., along with equity capital;
- Collaboration with technical assistance providers.

28. The advantages of SME venture capital funds were the following: they could provide extremely profitable returns if run properly; they provided growth capital for SMEs that normally did not have access to stock markets and, frequently, were over-leveraged companies; and they provided managerial and technical assistance to talented entrepreneurs. Nevertheless, SME venture capital funds also had disadvantages. They were not appropriate for all SMEs, particularly for smaller ones. Unless a company could generate cash flows to pay for technical and managerial assistance, venture capital funds were not a cost-effective method. In addition, venture capital required significant involvement of fund managers in mentoring and supporting SMEs.

29. Experts observed that, in developing countries, equity funds and especially venture capital funds had greater difficulties in servicing SMEs and even identifying fundable ones. The required rates of return for investments in developing countries were very high, thus disqualifying most potential investments.

30. It was also noted that, since developing countries had illiquid markets, exit strategies were a difficult issue for SME venture capital funds. In the case of SEAF, the fund actively

searched for prospective exit opportunities such as a strategic purchase by a competing firm even before making the initial investment.

31. The experts focused on mechanisms that could be used to bridge the gap between the lack of business competence of SMEs in developing countries and the requirements of commercial banks or private equity funds. They emphasized the importance of a competent and motivated management team for the success of an SME. They agreed that SMEs needed handholding in the pre- and post-finance stages. In such cases, donor agencies and business development service providers could play a key role through programmes dedicated to strengthening SMEs in order to improve their creditworthiness. They agreed that there is a need for public-private investment funds devoted to the support and promotion of SMEs and information infrastructure development, especially in the LDCs.

32. The latest trends in private equity investment showed that there was a need to bring in private pension funds, insurers and investors who were looking for high returns in order to provide equity capital for SMEs. Governments had recognized the dynamic nature of the SME sector, which meant that there were more government funds for equity capital investment in SMEs. In addition, public and private sectors were entering partnerships to promote the investment of private funds.

Complements to finance: insurance

33. SMEs engaged in exporting must also have access to export credit insurance in order to cover both commercial and political risks.

34. COTUNACE, a Tunisian company, provided export insurance and bank guarantees to SMEs. Examples of services it had developed to serve SME clients included business advisory services and follow-up, and easier access to bank financing through guarantee conventions signed by COTUNACE with banks.

35. In 2000 the company had launched a new product: a Pre-Financing Export Guarantee. Through this instrument, COTUNACE guaranteed SME activities vis-à-vis banks. The role of this guarantee was to replace the traditional collateral demanded by banks with a pre-financing credit guarantee. The main objectives were to facilitate the access of SMEs to bank pre-financing with guarantees up to 80% of export orders and to facilitate exporting instead of subcontracting by SMEs.

36. COTUNACE had overcome the reluctance of banks to accept guarantees instead of collateral in three ways. Firstly, banks were allowed to come forward with their own SME customers (persuasion efforts). Secondly, COTUNACE rendered the system credible by paying quickly when there was a default problem. Thirdly, banks were under increasing pressure from COTUNACE and the Government to provide finance to SMEs. Furthermore, SMEs were aware that such a system existed and that guarantees could be financed by COTUNACE. Thus, persuasion had been combined with a credible guarantee system.

37. The experts discussed the use of guarantee schemes to increase bank lending to SMEs. Such schemes could reduce the risk perceived by banks when lending to SMEs and they could also have a positive impact on the prudential regulations imposed on banks. For example, in the case of defaults, rapid compensation from a guarantee scheme enabled banks to restore liquidity without waiting for the outcome of legal procedures.

38. However, many guarantee funds had failed in the past because of moral hazard problems, inadequate procedures that involved high administrative costs, inexperienced staff dealing with SME loan portfolios, and delays in paying claims to banks. In Africa, guarantee schemes had a political aspect whereby banks were often compelled to finance risky projects and sectors.

39. To avoid repeating past failures, guarantee schemes should be constructed on solid principles, such as:

- Additionality: the introduction of the guarantee had a significant role to play in the decision making process of banks in granting credit to those SMEs which had previously been rejected;
- Viability: ability to cover running costs as well as any losses;
- Credibility: the guarantee must be obtained easily in case of a default, and the fund should be run professionally;
- Trust: the guarantee scheme should inspire trust in all financial institutions and should foster long-term relationships between banks and borrowers.

40. It was underlined that export credit insurance and guarantee schemes could increase banks' appetite for servicing SMEs in developing countries, but they had to be combined with financial innovation and training at the bank and the guarantor levels and with business services at the SME level. Experts also emphasized that loan guarantee schemes should be designed so as to ensure that the target beneficiaries were reached, balanced risk sharing was ensured and moral hazard problems were avoided.

Combining business services with finance

41. The experts then considered the need to combine non-financial services (or business development services) with actual finance in order to ensure long-term and sustainable results in strengthening the SME sector.

42. They noted that in many cases the main obstacle for SMEs to access finance was not the shortage of finance, but the lack of well-formulated and sound business proposals that banks and investors would find creditworthy.

43. Critical skills needed to run a successful enterprise were described by one expert as a tripod: (1) product or service know-how; (2) marketing and sales ability; (3) finance and accounting skills. Business development services (BDS) aimed at strengthening the capacities of SME entrepreneurs in these areas had the potential to improve the attractiveness of SMEs. More professional management of SMEs improved their survival rate, thus reducing loan losses for banks. Well-formulated business plans, high-quality financial information, knowledge of available financial instruments and properly prepared loan applications all reduced the costs for banks of servicing SME clients.

44. Experts brought up the need for third party business appraisals for SMEs before they entered a bank and sought finance. This would involve a confidential assessment of the SME's business idea and options, covering the basic business idea, market potential, management ability, financial needs, security and repayment. SMEs would have a realistic picture of options available to them, and for banks the potential clients would already have been pre-screened.

45. The experts considered a number of business support services offered to SMEs. They noted that schemes involving business mentors had been particularly useful for SMEs. A mentor was someone who was experienced in the business of the SME concerned, trustworthy, professional and able to give up-to-date advice.

46. For a BDS provider to be useful, the services it provided needed to be of high quality. This was especially true in cases were partnerships between banks and BDS were promoted. If banks were to outsource some of their operations to BDS providers, they needed to have great confidence in the partner. These partnerships had the potential of improving SMEs' access to credit significantly by reducing the costs of lending for banks through the outsourcing of activities such as credit appraisal and monitoring of loans to BDS providers.

47. BDS services should not only focus on SMEs. Commercial banks also needed to develop their skills in working with SMEs. Experts noted that in many cases commercial banks lacked entrepreneurial spirit and tended to choose the easy and low risk option rather than to work with more challenging SME clients. BDS providers should therefore also aim to develop the entrepreneurial skills of bankers (intrapreneurship) and to promote their sensitivity towards SME clients.

48. Experts considered the need to subsidize the provision of business development services. It was noted that SMEs were often very reluctant customers of these services, since the advantages were not always directly apparent. It was noted that especially the initial contact between an SME and a service provider should be either free or inexpensive. However, at later stages SMEs should feel that the services they were receiving were worth their time and money (demand driven) and would thus be willing to pay for the services.

49. The experts also noted the need to promote an institutional framework for SME support services.

Governments and international organizations

50. On the role of Governments and international organizations in promoting SMEs' access to credit and the special difficulties faced by women entrepreneurs in accessing credit, a panel was chaired by the Minister for SMEs and Commerce of Senegal. In her opening statement the Minister outlined the financial environment that SMEs faced in Senegal and emphasized the need to actively support SMEs' access to credit and the importance of providing technical assistance to them. In Senegal, the Fund for Economic Promotion used instruments such as refinancing, guarantees and credit lines to improve SMEs access to credit, and in recent years a number of measures had been taken to improve the efficiency of the Fund. These included a communication strategy to strengthen partnerships with banks and SMEs, placing emphasis on hiring finance and banking experts, establishing systems to ensure managerial rigour, and improving the visibility of the fund and its products, especially among SMEs.

51. Experts further discussed the experiences of the Ugandan Government with programmes for improving SMEs' access to credit. Their success had depended on whether the final credit decisions were made on a commercial basis. Programmes in which the Government had provided funds for banks to on-lend to SMEs had resulted in mismanagement of the funds and had usually failed to reach the target groups. Schemes that had worked better were ones in which Governments had channelled funds (especially long-term resources) through the central bank, with commercial banks taking the full risk. The problem with this approach was that the credits were generally expensive by the time they reached SMEs, it did not solve the problem that SMEs faced with respect to lack of collateral, it depended on existing infrastructure and it did not promote innovations. Credit guarantee schemes in Uganda had worked relatively well. They brought in burden sharing and forced commercial banks to consider SME clients that otherwise would not have been eligible for credit. Equity financing had so far been limited, but represented a very promising initiative.

52. Experts emphasized the role of the Government in strengthening the financial system by adopting regulatory and legal frameworks that allowed for the establishment of financial sector infrastructure such as credit bureaus and other information sharing solutions, encouraged banks to implement good corporate governance practices and transparent management procedures, and created conditions for promoting local capital markets.

53. Experts noted a number ways to encourage commercial banks to lend to SMEs. These included requiring banks to disclose the composition of their loan portfolios, particularly the percentage of loans to SMEs, and encouraging banks to appoint outside experts with knowledge of SMEs to their board of directors.

54. Experts discussed the use of debt-swaps for international organizations as a means of strengthening local financial institutions by providing them with medium and long-term finance for SMEs and also using them to provide business development services. Experts noted that this could be a useful complement to the HIPC debt alleviation facility.

55. Experts discussed the need to develop common standards and systems to link commercial banks and micro-finance institutions to increase outreach and accelerate the mainstreaming of productive poor into the formal financial sector.

56. Experts also noted the need for reliable SME data for reliable policy analysis.

Women entrepreneurs' access to credit

57. The experts considered the problems faced by women entrepreneurs in obtaining access to credit. Despite the active role of women as entrepreneurs and their good track record in repayment of loans, their share of loans remained marginal. Experts noted that women entrepreneurs faced hurdles in accessing credit that male entrepreneurs did not face. For example, women entrepreneurs were frequently asked questions regarding their marriage status and family plans that their male counterparts were not asked.

58. The experts examined successful programmes to improve women's access to credit. These included the Women's World Bank (WWB) that operated through 43 affiliates in 35 countries. WWB had improved women's access to credit through partnerships with local savings banks and group lending models to substitute for collateral, through guarantee schemes for emigrant women and by working with bankers to make them aware of discrimination that women faced in obtaining access to credit.

59. Experts also considered it necessary to increase the number of women as advisers and staff in bank to improve banks' awareness of and capability to work with women entrepreneurs.

60. The experts discussed the special problems women entrepreneurs in developing countries faced in obtaining formal credit. For example, in Honduras women were usually restricted to obtaining credit from informal sources at very high rates of interest. The congress of Honduras was considering the creation of a Women's Popular Bank to improve omen entrepreneurs' access to medium and long-term credit in both rural and urban areas.

B. E-finance for SMEs

61. Part two of the Expert Meeting was opened by the Director of the Division of Services Infrastructure for Development and Trade Efficiency (SITE). He briefly overviewed the importance of e-finance for the SMEs in developing and transition economies and stressed that the promised efficiencies of electronic commerce in developing countries would not materialize without investment in ICT infrastructure and in human resources, as well as adequate external debt relief. He also indicated that the papers of the e-finance for SMEs part of expert meeting were posted on the website of UNCTAD's e-commerce programme: www.unctad.org/ecommerce

62. The discussion on e-finance concentrated mainly on: the state of e-finance globally and in developing regions; the possibilities of global and regional e-finance platforms;

national experiences; and the prospects for improving SMEs' access to e-finance in developing and transition economies

The state of e-finance

63. Two leading experts and UNCTAD consultants on e-finance maintained that financial services were among those sectors most transformed by the advent of the Internet. They discussed progress in online payments, Internet banking, digital cash, e-trade finance, e-credit information systems, and others. They agreed that the banking system alone would not be able to provide comprehensive solutions for cyberfinance. Solutions were emerging as a result of competitive pressures from the pure technology companies or dot.com newcomers and as a result of aggressive Internet e-finance development strategies of traditional service providers. Adopting e-commerce in the financial sector was a complex process with many hidden costs, including the need for new levels of intermediation.

64. Even today, in developed countries 80 per cent of all small payments were still in cash. On-line retailing or business-to-consumer e-commerce (B2C) relied predominantly on the credit card as a means of e-payment. Credit cards were convenient as they provided for international cross-currency payments, the main credit card brands were generally recognized and deemed trustworthy, and bankers already had experience with credit-card-holder-not-present payments in mail/telephone order retail before the advent of Internet based e-commerce. No dominant mode had yet emerged for online payments in business-to-business e-commerce (B2B). The development of online modes of automated clearing house payment systems (ACH) was important for online transfer of large funds. In order for these to take off, legal changes accommodating e-commerce practice needed to be in place and a public key infrastructure (PKI) system was necessary.

65. Developing countries were still disadvantaged in terms of participating in this process because of their underdeveloped banking systems and low credit card penetration. However, the possibilities for leapfrogging were substantial, as Internet-based technology was still less expensive than traditional technology. Although e-finance was at an early stage, especially in developing and transition economies, it had the potential to dominate global finance in the coming years, hence the far-reaching implications for developing countries' SMEs and their financial institutions.

Global and regional e-finance solutions

66. According to the representatives of two major credit insurers, Coface and Gerling Namur, third party online credit risk management, particularly through credit insurance, was becoming an important constituent part of e-finance. Even in traditional finance, poor credit information resulted in the perceived risk of doing business with SMEs in developing countries being greater than the real risk. Traders in developed countries found it difficult to extend trade credit to traders from developing countries if there was no credit information on the latter. The Internet had great potential in terms of improving the situation by making credit information, and therefore credit ratings, accessible to developing country SMEs. As a

result of improved transparency, SMEs might be listed in online credit information and rating databases and improve their access to trade finance. The Coface @rating system was one of the biggest private sector initiatives to monitor online millions of SMEs, including those from emerging economies, and provide them with credit limits.

67. From the perspective of the representative of Citibank, e-finance would not bring any new finance for SMEs if their credit risk remained the same. SMEs had to face a number of challenges, including high trade barriers, lack of technological know-how, and inadequate access to financing and information. While credit rating was an important area, other issues, such as management quality, were also significant when extending finance to SMEs. E-commerce and e-finance were parts of many SMEs' future, as their larger trading partners in developed countries were adopting these practices and would exclude partners that failed to comply with the new technological standards.

68. Paradoxically, microfinance, including lending to individuals or very small SMEs, was better organized at the regional and global levels than traditional SME finance, in spite of the fact that this lending was frequently offered without collateral. The representative of Virtual Micro-finance Market and Pride Africa explored new approaches needed to embrace this economic segment and extend finance, in particular the active use of Internet-based platforms. The Virtual Microfinance Market resided on a website developed in UNCTAD. This particular e-finance application provided various types of information about Micro-finance institutions (MFIs), including information related to their reliability, thus permitting internationally known financial institutions to fund MFIs more frequently and more quickly than in the past.

69. As the practice of microfinance had shown, the traditional development finance approach did not give the desired results. In Africa, half of all economic activity was in the informal sector, which was out of reach of formal financing and its institutions. A more promising approach would be to establish a network of MFIs based on a replicable and successful model. This network could develop linkages with the formal financial sector and among individual MFIs. Existing and new technologies could be tested for their appropriateness and banks spared from having to deal with thousands of small clients.

70. The expert on regional e-commerce from the Philippines stressed the importance of SMEs developing electronic back-offices. In order to participate in e-commerce in the framework of global and regional supply chains, SMEs had to face the challenge of meeting standards applied by TNCs. Otherwise they risked being technologically excluded. While, so far, all e-commerce failures had had their roots essentially in technology deployment issues, future success would depend on implementation of legal and public key infrastructure. Legally enforceable digital signatures were key to enforcing global standards. At present global standards were lacking, and this was creating a problem of redundant costs caused by the need to have proprietary solutions. The availability of real-time financial risk information called for consequential adaptation of financial risk management products. Thus many trade credit and credit information institutions were willing to expand their activities and become B2B clearing houses or markets.

71. The experts also expressed their concern that, although many schemes were in place, little if any additional financial flows were generated. Leveling the playing field for businesses worldwide was an easily assumed characteristic of the Internet. However, given concerns about the growing global digital divide and the marginalization of LDCs in global trade, it was not clear if a unitary approach could be taken to suggesting policy options or best practices for LDCs and their SMEs.

72. The accountability of rating agencies for the quality of their ratings, as well as their ability to continuously update the ratings of the millions of businesses in their databases, was also questioned. While e-commerce was not a panacea, its full-fledged adoption by the main global trading partners was going forward. Developing countries therefore needed to reassess their technical assistance focus. They had to require more e-commerce and e-development-centred assistance to be able to adopt e-commerce-compatible legislation and re-engineer government administration currently bogged down in paperwork and red tape. Equally SMEs needed to adopt e-commerce practices, invest in IT and retrain their personnel to benefit from the efficiency of e-commerce. Experts also stressed the potential of mobile e-commerce, as mobile telephony provided secure hardware and a billing system that could be utilized for commercial transactions other than telecommunications.

National e-finance experiences

73. An expert representing a leading Indian banking institution active in e-finance pointed out that in India lending to SMEs was a risky proposition due to SMEs' lack of collateral, their inability to provide quality data, and the low company survival rate. Traditional banking could not adequately serve this market. E-banking, in contrast, could capitalize on the linkages that SMEs had with parent corporations as supply chain partners. A corporation could create a B2B platform involving an e-finance network, permitting SME participation in e-banking and making SMEs more creditworthy. Furthermore, e-banking led to significant cost reductions through lower cost of delivery, speed and wider reach, while online credit information tools facilitated transaction analysis and risk mitigation. Savings could then be transferred to SMEs in the form of lower interest rates.

74. The representative of a leading Brazilian bank explained that the payment system in Brazil was very efficient and comparable to those in developed countries thanks to the heavy investments in IT made by leading Brazilian commercial banks in the high inflation years. An efficient payment system was the basis for e-finance and e-commerce. Brazil also had a relatively high Internet and e-banking penetration rate, with greater focus on transactions and payments than on credit and loans. In particular, e-banking allowed current account management, payment of salaries, collection of receivables, payment of suppliers, credit-related services and expense account management. Crucial issues for the development of e-finance were the adoption of compatible regulations for e-finance in Mercosur countries and the adoption of laws and regulations for digital signatures for loans and other financial transactions.

75. The "Coalition" project presented by an expert from Mexico represented a concrete way to solve SME financing problems by leveraging on the special relationship that they had with large well-established enterprises. Upon delivery of materials, services or products, SMEs obtained documents from buyers, normally large corporations, which were regarded as a sort of guarantee by a bank ready to cash them in advance of the due date. This system benefited all participants, because guarantor corporations did not have to worry that SMEs might go bankrupt because of a cash-flow problem, while banks attracted new customers or helped existing customers make more business.

76. An expert from Bangladesh pointed out that over 50 per cent of SMEs from Bangladesh had no access to any form of formal finance. ICT could play an important role in helping remove this major obstacle to SME growth. A first concrete project was the introduction of innovative e-finance services specially designed for SMEs through the use of smart cards and the development of a point-of-sale network. A second important initiative was being taken to address the most important barrier in getting access to finance in Bangladesh: lack of collateral. In this respect, Bangladesh was planning to create a countrywide, inexpensive, electronic public records system that would allow individuals to retrieve information about all movable property claims. A new law would then strengthen the enforcement system for creditors. Finally, in order to overcome the lack of reliable and validated business-related information, a new electronic business information system – accessible from anywhere in the country – would be implemented in stages from 2002 to 2008.

The prospects for e-finance

77. Experts from the World Bank and Amsterdam University maintained that e-finance was not limited to industrial countries and advanced emerging markets, but instead offered opportunities to leapfrog to countries with underdeveloped financial systems. In Africa electronic cash and other smart cards offered savings and payment services to low-income customers—including those in remote areas—who often did not even have formal bank accounts. However, realizing the gains would require changing public policies toward financial services. The most pressing policy issues related to an enabling regulatory environment for e-finance. Adjustments were needed in approaches to telecommunications, security and related infrastructure for electronic transactions, information and privacy, and contract enforcement. In addition, steps had to be taken to minimize risks for consumers and investors, adjust prudential regulation, and improve the performance of markets.

78. The representative of the Bank for International Settlements presented the possible implications of e-finance for banks and other financial institutions, as well as for financial markets. Exactly how these developments would take place and at what speed they would unfold was quite uncertain. These uncertainties could have potentially destabilizing effects on the financial systems and thus posed challenges to central banks and financial supervisors, among other things in respect of the level of their international cooperation. Responding to these challenges required a technology-neutral regulatory and institutional framework that would make it possible to reap the full benefit of e-finance without stifling innovation. One

obstacle in developing this new framework was the lack of reliable data on e-finance itself. But before new data collection systems were considered, a clearer conceptual framework was needed to pose relevant questions, and the help of the private sector and the academic community was needed in this endeavour. In this context, it was all the more important to have regular and in-depth exchanges of information between central banks, supervisors and private market players.

79. Finally, in assessing the future of e-finance, a practitioner from India stressed lack of finance as the premier constraint on SME growth. The main problems in this connection were lack of collateral and lack of reliable information on SMEs, which, compounded with smaller fund requirements per deal, made the transaction costs of funding SMEs excessively high. Fortunately, Internet technologies provided a feasible solution to these problems. The solution lay in leveraging Internet technologies and involving SME associations in the collation of basic data. This initiative could be complemented by policy initiatives such as mandating public sector units and public listed companies to collate basic information on all SMEs associated with them and requiring that industrial parks have a database on SMEs operating under their aegis to qualify for preferential fiscal treatment. Once reliable information on SME business was captured, a basic identity for SMEs could be established, and credible transaction histories could be generated, paving the way for e-finance.

80. Some experts also noted that the banking industry thrived on operational inefficiencies (floats and intermediation fees) that existed due to information asymmetry in the vendor-client relationship. It was estimated that e-finance could reduce the margins of the financial services industry by almost 50% in several developing countries. Hence, the banking sector had inherent reservations about encouraging digital efficiencies. In the short term, therefore, trade entities should come up with major initiatives in the area of e-finance to create competitive pressures on banks.

81. Finally, while one expert emphasized the importance for developing countries of knowing which changes they should introduce in their financial regulations before launching e-banking, another did not agree that the regulatory environment was of fundamental importance to start e-banking, citing as an example the case of Mexico where, in spite of a public sector guarantee on savings deposited with any type of bank, customers were still reluctant to put savings in pure Internet banks "because they did not trust a non-physical entity". In that respect experts also touched on security issues and in particular PKI, including the quality of certification authorities and the possible role of Governments in that process.

Chapter III

ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

82. The Expert Meeting on Improving the Competitiveness of SMEs in Developing Countries: The Role of Finance, including E-finance, to Enhance Enterprise Development, was held at the Palais des Nations, Geneva, from 22 to 24 October 2001.

B. Election of officers

(Agenda item 1)

83. At its opening meeting, the Expert Meeting elected the following officers to serve on its bureau:

Chairperson: Mr. Paul Frix (Belgium)

Vice-Chairperson-cum- Rapporteur: Mr. Edsel Custodio (Philippines)

C. Adoption of the agenda and organization of work

(Agenda item 2)

84. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in document TD/B/COM.3/EM.13/1. The agenda for the Meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Improving the competitiveness of SMEs in developing countries: The role of finance, including e-finance, to enhance enterprise development
4. Adoption of the outcome of the Meeting

D. Documentation

85. For its consideration of the substantive agenda item, the Expert Meeting had before it an issues paper prepared by the UNCTAD secretariat entitled: "Finance and e-finance for SMEs as a means to enhance their operations and competitiveness" (TD/B/COM.3/EM.13/2),

E. Adoption of the outcome of the Meeting

(Agenda item 4)

86. At its closing meeting, the Expert Meeting authorized the Rapporteur to prepare the final report of the Meeting under the authority of the Chairperson.

Annex

ATTENDANCE *

1. Experts from the following States representatives of UNCTAD attended the Meeting:

Belarus
Belgium
Benin
Brazil
Chad
China
Costa Rica
Cuba
Denmark
Egypt
France
Germany
Ghana
Guinea-Bissau
Honduras
India
Ireland
Italy
Jordan
Kenya
Madagascar
Mexico
Morocco
Mozambique
Nigeria
Oman
Panama
Philippines
Qatar
Russian Federation
Saudi Arabia
Senegal
Spain
Sudan
Sweden
Switzerland
Syrian Arab Republic
Thailand
Togo
Trinidad and Tobago
Tunisia
Uganda
United Republic of Tanzania
United States of America
Venezuela

2. Palestine attended the Meeting as an observer.

3. The following intergovernmental organizations were represented at the Meeting:

European Community
Arab Labour Organization
Organization of the Islamic Conference

* For the list of participants, see TD/B/COM.3/EM.13/INF.1.

4. The following specialized agencies and related organizations were represented at the Meeting:

International Labour Organisation
International Monetary Fund
World Intellectual Property Organization
United Nations Industrial Development Organization

5. The Economic Commission for Europe, the Economic Commission for Latin America and the Caribbean, and the Department of Economic and Social Affairs were represented at the Meeting. The International Trade Centre was also represented at the Meeting.

6. The following non-governmental organizations were represented at the Meeting:

General Category

Exchange and Cooperation Centre for Latin America

Special Category

International Federation of University Women

7. The following panelists and special invitees attended the Meeting

Ms. Aïchatou Agne Pouye, Minister for SIYEs and Trade, Senegal
Mr. John C. Bays, Regional Director, Small Enterprise Assistance Funds (SEAF), Bolivia
Mr. Håkan Berg, Executive Vice-President, Swedbank, Sweden
Ms. Inger Berggren Garnacho, President, Women's World Banking, Spain
Mr. Jérôme Cazes, Managing Director, COFACE, France
Mr. Stijn Claessens, Professor of International Finance, University of Amsterdam, Netherlands
Mr. Brian Dunsby, Senior Vice-President, International Council for Small Business, United Kingdom
Mr. Thomas Glaessner, Lead Financial Economist, World Bank, Washington, United States of America
Mr. Charles Goldfinger, Managing Director, Global Electronics Finance, Belgium
Mr. Sanjay Guglani, Managing Director, Saksham Financial Services Ltd., India
Mr. Cuno Güttler, Director, German Savings Bank Organization
Mr. Tom Harrison, British Executive Service Overseas (BESO), United Kingdom
Mr. Louis Kasakende, PhD., Deputy Governor, Bank of Uganda
Ms. Renate Kloeppinger-Todd, Global Finance Marketing Group, International Finance Cooperation
Mr. Sankar Krishnan, Vice-President and Regional Head, E-Business for Middle East,

South Asia and Africa, Citibank, Dubai, United Arab Emirates
Mr. Sushant Kumar, Head-SME, ICICI Bank, India
Mr. Sailendra Narain, Principal Advisor, World Association for Small and Medium Enterprises (WASME), India
Mr. R. Narasimham, Senior Project Officer, Asian Development Bank, Manila, Philippines
Mr. Antonio C.B. Oliveira, Executive Director, Banco Itaú, Brazil
Mr. Donald O'Mahony, Director, Networks and Telecommunications Research Group, Trinity College, Ireland
Mr. Mauricio de la Orta Pardo, Westbridge University and Banco Santander, Mexico
Mr. Pancho Otero, Member of the Advisory Board, Virtual Microfinance Market, Bolivia
Mr. François Perrin, Manager, Global Electronics Finance, France
Mr. Ananya Raihan, Research Fellow, Centre for Policy Dialogue, Bangladesh
Mr. Philippe Régnier, Director, Modern Research Center, University Development Studies Institute, Switzerland
Mr. Philippe Rennotte, Member of the Executive Board, Gerling Namur
Mr. Setsuya Sato, Senior Advisor, Bank for International Settlements, Basel, Switzerland
Mr. Jean Marie Vianney Nyirimihigo, Director-General, African Solidarity Fund, Rwanda
Ms. Rina de Villeda Bermudez, Inter-American Commission of Women, Honduras
Mr. Andrew Warner, Professor, Centre for International Development, Harvard University, United States of America
Mr. Moncef Zouari, CEO, Compagnie Tunisienne pour l'Assurance du Commerce Extérieur (COTUNACE), Tunisie

Specially invited

Mr. Ernest Ngome Ajang, Senior Accounts and Finance Officer, Cameroon TPO
Mr. Jean Bastin, President, Fondation Scientifique Jean Bastin a.s.b.l.
Mr. Robert Bedrikow, SERASA, Brazil
Mr. Jeremy Bullock, Financial Consultant, United Kingdom
Mr. Jaime Echegoyen, General Manager, Spain
Mr. Michael Firth, Chair Professor, Hong Kong
Mr. José Gabriel Hernandez Figueroa, Internet Division, Banco Santander Mexicano, Mexico
Ms. Tulay Gungen, Executive Vice-President, Yapi Credit Bank of Istanbul, Turkey
Mr. Ahmad M. Jachi, Chairman and Chief Executive, Al-Buhous Institute, Lebanon
Mr. Konstantin Karabanov, Consultant, Netherlands Economic Institute, Moscow Office, Russian Federation
Mr. Bruno Masier, President, World Trade Point Federation, Geneva

Mr. Pascal O'Dogherty, Director, Financial Analysis, Banco de Mexico
Ms. Maria Otero, President and CEO, ACCION International, United States of America
Mr. Pierre Paris, Consultant, Ministry of Foreign Affairs, France
Mr. Robert Parson, Head, Legal Team, CCEWeb Corporation, United Kingdom
Ms. Colette Schreiber, Vice-President, Les Femmes Chefs d'Entreprise (FCEM), France
Ms. Claudine Seynave, Fondation Scientifique Jean Bastin a.s.b.l.
Mr. Raymond W. So, Assistant Professor, Hong Kong
Mr. Kumar Sushant, Head SME, ICICI Bank, India
Mr. Jean-François Tarel, President, COFACE, Switzerland
Mr. Daniel Wyss, Director, Credit Suisse Banking, Switzerland